

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SSO-00 NSCE-00 INRE-00 ICAE-00
AID-05 CEA-01 CIAE-00 COME-00 EB-08 EA-10 FRB-03
INR-10 IO-13 NEA-11 NSAE-00 OPIC-03 SP-02 TRSE-00
LAB-04 SIL-01 AGRE-00 OMB-01 SS-15 XMB-02 PA-01
/103 W

-----070747 111506Z /53

O R 111330Z MAY 78
FM AMEMBASSY ANKARA
TO SECSTATE WASHDC IMMEDIATE 1889
INFO AMCONSUL ADANA
AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMCONSUL ISTANBUL
AMCONSUL IZMIR
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY OSLO
AMEMBASSY OTTAWA
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
AMEMBASSY THE HAGUE
AMEMBASSY VIENNA

C O N F I D E N T I A L SECTION 1 OF 2 ANKARA 3651

PASS EXIM BANK AND DEPARTMENT OF TREASURY

USOECD

USEEC

1. THE GROUP OF EIGHT COMMERCIAL BANKS, WHICH HAS TAKEN
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THE LEAD IN ATTEMPTING TO REORGANIZE TURKEY'S OVERDUE
AND MATURING CONVERTIBLE LIRA DEPOSITS (CTL'S) AND SOME
OF ITS OTHER SHORT-TERM BANK DEBTS, ARRANGED FOR TURKISH
FINANCE MINISTER ZIYA MUEZZINOGLU TO EXPLAIN TURKEY'S
ECONOMIC PROGRAM AND PLANS TO A NUMBER OF BANKS IN NEW
YORK, LONDON, ZURICH AND FRANKFORT, MAY 1-5. THE NEW
YORK MEETINGS WERE ORGANIZED BY MORGAN, CHASE AND CITI-

CORP AND INCLUDED REPRESENTATIVES OF ABOUT 40 U.S. BANKS. REPORTEDLY, MUEZZINOGLU MADE A FAVORABLE IMPRESSION AT THESE MEETINGS AND EMPHASIZED THE ECEVIT GOVERNMENT'S DETERMINATION TO STABILIZE THE ECONOMY, MEET ITS IMF STANDBY CONDITIONS AND REVITALIZE THE OECD CONSORTIUM FOR AID TO TURKEY. THE EIGHT LEAD BANKS (CHASE MANHATTAN, MORGAN GUARANTY, CITICORP, BARCLAYS, DEUTSCHE BANK, DRESDNER BANK, UNION BANK OF SWITZERLAND, AND SWISS BANK CORPORATION) SUGGESTED THAT MUEZZINOGLU'S DIRECT CONTACT WITH BANKERS WOULD BE USEFUL IN HELPING TO CONVINCE MORE THAN 200 COMMERCIAL BANKS, WHICH HOLD CONVERTIBLE LIRA DEPOSITS VOLUNTARILY, TO TRANSFORM OVERDUE AND MATURING CTLs TO FOUR TO SEVEN YEAR TIME DEPOSITS.

2. THE LEAD BANKS MET IN LONDON MAY 9 TO COME UP WITH AN AGREED POSITION TO PRESENT TO THE TURKS ON BOTH DEBT RESTRUCTURING AND THE PROVISION OF NEW MONEY. LOCAL CITICORP REP, DICK GEORGE, WHO ATTENDED THE LONDON MEETING, TOLD EMBOFF THAT HE COULD NOT COMMENT ON THE DISCUSSIONS BECAUSE A NUMBER OF PROBLEMS REMAINED TO BE RESOLVED; HOWEVER, HE WAS CONFIDENT THAT THE BANKS WOULD REACH AN AGREEMENT THIS WEEK TO PRESENT TO THE TURKS ON MAY 15 IN ANKARA. HE ALSO SAID THAT ONE OR TWO REPRESENTATIVES OF THE GROUP OF EIGHT BANKS WOULD ATTEND THE OECD MEETINGS, MAY 17-19, AS INFORMAL OBSERVERS AND TO CONFIDENTIAL

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REPORT ON THEIR DISCUSSIONS WITH THE TURKS.

3. THE FOLLOWING IS EMBASSY'S UNDERSTANDING OF CURRENT STATUS OF TURKISH COMMERCIAL-BANK RELATIONSHIP:
A. CONVERTIBLE LIRA DEPOSITS: BOTH THE TURKS AND A MAJORITY OF THE BANKS ATREE THAT THE DEPOSIT NATURE OF THESE OBLIGATIONS SHOULD BE MAINTAINED AND NOT CHANGED TO A TERM LOAN. CONSOLIDATING THE DEPOSITS IN LOAN FORM WOULD INVOLVE A DRASTIC REDUCTION IN THE DOMESTIC MONEY SUPPLY SINCE THE TURKISH LIRA COUNTERPART OF THE CTL WOULD BE WITHDRAWN. CTLs REPRESENT ABOUT 16 PERCENT OF TOTAL DEPOSITS IN THE BANKING SYSTEM. WHILE THE CENTRAL BANK COULD COMPENSATE FOR THIS DROP BY OTHER ACTIONS, MANY CTLs ARE EARMARKED TO FINANCE THE DOMESTIC OPERATIONS OF SPECIFIC COMPANIES AND COMPENSATING MONETARY POLICY COULD NOT MAINTAIN EXISTING CTL-COMPANY RELATIONSHIPS. BANKS WANT TO MAINTAIN THE DEPOSIT NATURE OF CTLs BECAUSE CONVERTING CTLs TO

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-----070810 111505Z /53

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FM AMEMBASSY ANKARA
TO SECSTATE WASHDC IMMEDIATE 1890
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AMEMBASSY THE HAGUE
AMEMBASSY VIENNA

C O N F I D E N T I A L SECTION 2 OF 2 ANKARA 3651

A LOAN WOULD PLANCE A NUMBER OF BANKS OVER THEIR LEGAL-
LENDING LIMITS TO TURKEY. IN ADDITION, A MATURING
TIME DEPOSIT DOES NOT HAVE THE SAME DEFINITE REPAYMENT
IMPLICATION THAT A TERM LOAN HAS SINCE DEPOSITS ARE
NORMALLY ROLLED OVER AS LONG AS INTEREST PAYMENTS ARE
BEING MADE, AND SOME BANKS FRANKLY DOUBT THE ABILITY OF
THE GOT TO SERVICE A \$2 BILLION TERM LOAN.
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THE KEY PROBLEM FOR THE LEAD BANKS LIES IN CONVINCING

ALL THE OTHER 200 BANKS HOLDING CTLS TO AGREE TO THE STRETCH-OUT. IF BANKS HOLDING A SIGNIFICANT AMOUNT OF CTLS DEMAND TO BE REPAID AT MATURITY, THE LEAD BANKS ARE FACED WITH EITHER FINDING NEW BANKS TO TAKE OVER THE DEPOSITS OR TAKING ON THESE DEPOSITS THEMSELVES SINCE IT IS OBVIOUS THAT TURKEY CANNOT PAY ANY OF THESE OBLIGATIONS THIS YEAR. EMBASSY ASSUMES THAT ONE OF THE STICKING POINTS IN REACHING AN AGREED BANK POSITION IS HOW TO RESOLVE THIS PROBLEM.

B. NEW LOAN SYNDICATION: THE BANKS ARE ACTIVELY CONSIDERING TURKEY'S REQUEST FOR \$600 MILLION IN NEW MONEY, BUT A NUMBER OF BANKS ARE RELUCTANT TO COMMIT NEW MONEY UNTIL ENOUGH TIME HAS PASSED TO ASSESS THE IMPLEMENTATION OF TURKEY'S ECONOMIC STABILIZATION PROGRAM. GIVEN THIS UNDERSTANDABLE RELUCTANCE, THE LEAD BANKS ARE CONSIDERING A PRIVATE PLACEMENT AMONG THEMSELVES NOW (AMOUNT IS NOT YET DETERMINED) IN AN EFFORT TO SATISFY SOME OF TURKEY'S IMMEDIATE NEEDS, AND WITH THE HOPE OF EXPANDING THIS TO A PUBLIC SYNDICATION ONCE TURKEY HAS DEMONSTRATED COMPLIANCE WITH THE IMF TARGETS.

C. SHORT-TERM BANKERS' CREDITS: APPARENTLY THE 14 BANKS WHICH HOLD MOST OF THIS \$475 MILLIN DEBT HAVE AGREED TO REFINANCE IT. SPIERS

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To: STATE
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